CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 21, 2001

H.R. 1992
Internet Equity and Education Act of 2001

As ordered reported by the House Committee on Education and the Workforce on August 1, 2001

SUMMARY

H.R. 1992 would make various changes to the Higher Education Act of 1965 that could affect the eligibility of institutions and academic programs that participate in federal financial aid programs. It would also modify the current-law prohibition on incentive payments from institutions of higher learning to private entities engaged in student recruitment activities. CBO estimates that the bill would have negligible effects on the federal budget. However, because H.R. 1992 would have some impact on direct spending, pay-as-you-go procedures would apply.

H.R. 1992 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. Enactment of this legislation would benefit institutions of higher education, including state universities, that offer courses through the Internet. The bill would allow some of these schools to offer more courses via telecommunications and still qualify for federal aid programs.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that implementing H.R. 1992 would cost less than $500,000 a year, assuming the availability of appropriated funds. We also estimate that any changes in direct spending, primarily for federal loan programs, under the bill would total less than $500,000 a year—at least over the next five years.

Modification of the Definition of Eligible Institution. H.R. 1992 would modify the definitions that determine the eligibility of institutions of higher education to participate in the federal Pell grant, student loan, and other financial aid programs. Under current law, institutions are ineligible to participate in these programs if more than 50 percent of courses offered at the institution are correspondence courses, or if more than 50 percent of the institution's students enroll in correspondence courses—including courses via telecommunications. The bill would allow courses offered via telecommunications to be excluded from the definition of correspondence courses for the purpose of these two restrictions if an institution is currently participating in the federal loan programs, has a cohort default rate of less than 10 percent for the last three years, and the Secretary of Education does not deny a request for providing such courses based on financial integrity grounds.

There are few data available upon which to base an estimate of federal costs. Staff at the Department of Education indicate that no low-default institutions currently exceed the 50 percent limitations. With the potential growth in distance education, however, it is possible that a number of schools could be affected by this provision in the future if the Secretary of Education does not restrict participation based on financial integrity grounds. In addition to this uncertainty, it is unclear how distance education would supplement or substitute for more traditional education. To the extent that this form of education substitutes for other forms, no additional federal costs would result from this provision. At this time, CBO has no basis for estimating any significant costs from implementing this provision.

Modification of the Definition of Academic Year. H.R 1992 would amend the definition of an academic year. For programs that use credit hours but are not on a semester, trimester or quarter system, a week of instruction is currently defined in the regulations as at least 12 hours of regularly scheduled instruction, examination, or preparation for examination. The bill would define a week of instruction as at least one day of instruction, examination, or preparation of examination—the same definition that is currently used for all other credit hour programs. Institutions affected by this rule change would be required to notify the Secretary of Education if they plan to offer programs of less than 12 hours of classroom time per week. Based on information from the Department of Education, CBO estimates that the costs associated with this provision would be less than $500,000 annually on both direct spending and discretionary programs.

Prohibition on Incentive Payments. The bill would also prohibit institutions from making any payment of a commission, bonus, or other incentive payment based directly on success in securing enrollments or financial aid, to any person or entity directly engaged in student recruiting or admission activities, or making decisions regarding the award of student financial assistance. The current-law prohibition focuses on people or entities that indirectly engage in these activities as well. CBO estimates that this provision would have no effect on federal spending.

Report by the Secretary of the Department of Education. The bill would require the Secretary of Education to complete a report on the effect of these amendments by

March 31, 2003, and would require the report to be completed by grant or contract. Given the relatively limited scope for the report, CBO estimates the cost of the report would be less than $500,000 with the costs spread over fiscal years 2002 and 2003.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Enacting H.R. 1992 would affect direct spending, but CBO estimates that such effects would be less than $500,000 a year—at least for the next five years.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1992 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. Enactment of this legislation would benefit institutions of higher education, including state universities, that offer courses through the Internet. The bill would allow some of these schools to offer more courses via telecommunications and still qualify for federal aid programs.

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